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Five Officials in San Diego Are Indicted Over Pensions

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LOS ANGELES, Jan. 6 - San Diego's legal and financial troubles deepened on Friday as a federal grand jury handed up fraud and conspiracy indictments against five current and former officials of the city's pension system.

The charges centered on a 2002 decision by the 13-member San Diego City Employees' Retirement System to enact a plan to increase significantly the pension benefits of city employees, including all the defendants, while failing to provide sufficient money to keep the pension fund solvent.

Federal prosecutors said the five defendants had conspired to hide the details of the proposal from other members of the pension board as part of a scheme to enrich themselves and cover up the financial danger to the pension system posed by the plan.

The decision helped to push the city to the brink of bankruptcy and led to the resignation of Mayor Dick Murphy last spring. The San Diego retirement system now has a deficit of at least \$1.4 billion, and the city is unable to borrow in the capital markets.

The local United States attorney, Carol Lam, said the five pension fund officials had violated their obligations to city retirees and the taxpaying public.

"The defendants had a duty to act in the best interest of the city retirement system," Ms. Lam said in a statement accompanying release of the indictments. "They breached that duty by engaging in self-dealing, ignoring conflicts of interest and exploiting their positions to the detriment of the retirement system."

In addition to the pension fund scandal, San Diego has been rocked in the past two years by a political corruption case involving three City Council members, and Representative Randy Cunningham's sudden resignation from Congress in November, when he pleaded guilty to bribery charges.

Federal and local prosecutors said Friday that their investigations were continuing. The Securities and Exchange Commission and the F.B.I. have been examining city finances for more than two years.

Those newly indicted are Ronald Saathoff, Cathy Lexin and Teresa Webster, former San Diego retirement fund trustees; Lawrence Grissom, the system's former administrator; and Loraine Chapin, its current general counsel. They are expected in court next week to enter pleas.

The three former trustees are already under indictment on state conflict-of-interest charges arising from the pension debacle, and civil charges are pending against them and Mr. Grissom. All have denied any

wrongdoing, as has Ms. Chapin, contending that their jobs with the pension fund required them to act on matters that would naturally affect their own benefits.

Mr. Saathoff is president of the San Diego firefighters' union and served as a labor representative on the pension board for 20 years. Ms. Lexin, a nonvoting member of the pension board, was the city's human resources director and a lead negotiator with city employee unions, including Mr. Saathoff's. Ms. Webster, also a nonvoting member of the board, was San Diego's assistant auditor and comptroller.

As a result of the 2002 vote, the indictment alleges, Mr. Saathoff's pension benefits were to rise by more than \$25,000 a year. The benefits of the four other defendants would also have been enhanced, but the indictment does not specify by how much.

As they were concealing the benefits they were to receive from the proposal, the defendants also pushed a plan to permit the pension fund to operate at a substantial deficit, allowing the city to avoid payment of as much as \$100 million, the indictment says. The City Council approved the pension plan shortly after it was adopted by the board.

Michael Aguirre, the San Diego city attorney, has brought civil charges against all of the defendants except Ms. Chapin. He said the federal indictment confirmed what his own investigation had found: that the accused had concealed various side deals that would enrich themselves and bankrupt the pension system.

"The result was the largest financial catastrophe in the history of San Diego," Mr. Aguirre said.